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UNCLAS ROME 000818

SIPDIS

FROM U.S. MISSION IN ROME

TBLISI FOR AMBASSADOR MILES AND USAID DIRECTOR  
STATE FOR AS/PRM DEWEY, PRM/P, IO/EDA BEHREND AND KOTOK,  
EUR/CACEN HOAGLAND AND LU  
USAID FOR A/AID, AA/DCHA WINTER, DCHA/FFP LANDIS  
GENEVA FOR RMA AND NKYLOH/USAID  
USDA/FAS FOR U/S PENN, CHAMBLISS, TILSWORTH

E.O. 12958: N/A

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SUBJECT: GEORGIAN FOOD PIPELINE CONCERNS

1. SUMMARY: WFP HAS PROVIDED A FUNDING PROPOSAL TO THE US MISSION ROME THAT PROPOSES AN EXCEPTIONAL FOOD DISTRIBUTION TO GEORGIAN HOUSEHOLDS SEVERELY AFFECTED BY RISING WHEAT FLOUR AND BREAD PRICES. WITH THE PRICE OF BREAD KEPT ARTIFICIALLY LOW AND THE SUPPLY OF SMUGGLED FLOUR DWINDLING, A SHORTAGE OF FLOUR IS ALSO LIKELY BECAUSE OF THE INFEASIBILITY OF COMMERCIAL IMPORTATION. AN EARLY, ADDITIONAL CONTRIBUTION OF COMMODITIES WOULD PROVIDE MAXIMUM EFFECT AT A CRITICAL TIME FOR THE NEW GOVERNMENT OF GEORGIA (GOG). END SUMMARY.

2. WORLD MARKET PRICES FOR WHEAT ARE UP. OF PARTICULAR IMPORTANCE TO GEORGIA IS THAT WHEAT HARVESTS IN UKRAINE LAST YEAR WERE PARTICULARLY BAD, AS WERE HARVESTS IN SOME OF THE REGIONS OF RUSSIA, E.G., KRASNODARSKI KRAI, THAT TRADITIONALLY EXPORT WHEAT TO GEORGIA. THUS FAR, THE GOG HAS TAKEN INFORMAL BUT EFFECTIVE STEPS TO STABILIZE THE PRICE OF BREAD. BAKERS HAVE BEEN ABLE TO DEAL WITH THIS THROUGH USING SMUGGLED RUSSIAN AND TURKISH WHEAT FLOUR.

3. RECENTLY, RUSSIAN FLOUR HAS BECOME MORE EXPENSIVE BECAUSE OF THE POOR HARVEST AND WORLD MARKET CONDITIONS. BECAUSE OF RISING BREAD PRICES IN RUSSIA, THE RUSSIAN FEDERATION HAS PLACED A 25 PERCENT EXPORT DUTY ON WHEAT AND, ACCORDING TO US EMBASSY TBLISI, WHEAT FLOUR. REPORTS ALSO INDICATE THAT OTHER, UNSPECIFIED RESTRICTIONS MAY ALSO APPLY TO THE EXPORTATION OF WHEAT AND WHEAT FLOUR. THESE CONDITIONS ARE LIKELY TO CAUSE PRICE INCREASES, AS IS THE GOG'S INCREASINGLY EFFECTIVE ANTI-SMUGGLING CAMPAIGN.

4. THE LATEST ESTIMATE OF THE WHEAT BALANCE IN GEORGIA IS THAT STOCKS RUN OUT IN MARCH. GEORGIAN GRAIN IMPORTERS ARE RELUCTANT TO PURCHASE WHEAT BECAUSE OF THEIR FEAR THAT THE DONOR COMMUNITY WILL PROVIDE THE SHORTFALL. THE MAIN CONCERN IS THAT WITH THE PRICE OF BREAD KEPT ARTIFICIALLY LOW AND THE SUPPLY OF SMUGGLED FLOUR DWINDLING, THERE IS A RISK OF A CRISIS-LEVEL SHORTAGE OF FLOUR IN GEORGIA BECAUSE OF THE INFEASIBILITY OF COMMERCIAL IMPORTATION.

5. ANECDOTAL INFORMATION FROM THE LOCAL MARKETS INDICATES THAT WHEAT FLOUR COMING FROM TURKEY -- PRESUMABLY SMUGGLED TO AVOID VAT AND IMPORT DUTIES -- SEEMS TO BE REPLACING RUSSIAN WHEAT FLOUR AND MAY AVERT A MAJOR CRISIS IN FLOUR AVAILABILITY. NEVERTHELESS, BECAUSE TURKISH FLOUR IS MORE EXPENSIVE THAN RUSSIAN FLOUR, IT IS COMMERCIAL INACCESSIBLE TO THE POOR.

6. WFP HAS AROUND 7500 METRIC TONS OF STOCK IN GEORGIA THAT IT CAN BORROW FROM AGAINST A PLEDGE TO ENABLE AN IMMEDIATE RESPONSE. WFP ANTICIPATES PROVIDING 350 GRAMS PER DAY FOR 60 DAYS FOR ABOUT 370,000 VULNERABLE PEOPLE, ABOUT 8 PERCENT OF THE POPULATION, FOR 2 MONTHS. THE RECENT CONTRIBUTION FROM THE EUROPEAN UNION PLUS AN ADDITIONAL CONTRIBUTION OF 5,000 METRIC TONS OF WHEAT FLOUR FROM USAID/FFP TOGETHER WOULD PROVIDE MAXIMUM BENEFIT AT THIS EARLY, CRITICAL TIME FOR THE NEW GOG.

7. COMMENTS: PER WFP, THE POOREST GEORGIANS ARE LIKELY TO EXPERIENCE SIGNIFICANT HARDSHIP WITHOUT AN ADDITIONAL 5,000 METRIC TON FFP/USAID CONTRIBUTION. US MISSION ROME AND USAID MISSION TBLISI SUPPORT WFP'S REQUEST. HALL

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